

## Internal Revenue Service

Number: **200908001**

Release Date: 2/20/2009

Index Number: 336.03-02

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

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CC:CORP:BO1

PLR-118143-08

Date:

November 13, 2008

Corp A =

Corp B =

Corp C =

Corp D =

Corp E =

LLC 1 =

LLC 2 =

Individual G =

Individual H =

Individual I =

Trust 1 =

Trust 2 =

Trust 3 =

Trust 4 =

Trust 5 =

Trust 6 =

Trust 7 =

Trust 8 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

a =

b =

c =

State X =

State Y =

Dear :

This letter replies to your letter dated April 10, 2008 requesting rulings concerning certain federal income tax consequences of a proposed transaction. The following information is provided in that letter and a letter dated November 6, 2008.

Corp A, Corp B, Corp C, and Corp D are each State X corporations that have each elected to be taxed as S corporations (together, the "S Corporations"). Their stock is owned by eight trusts (Trusts 1, 2, 3, 4, 5, 6, 7, and 8), which collectively benefit Individual 1, Individual 2, and Individual 3. Corp E's stock was also collectively owned by the trusts before the transactions described below.

LLC 1 is a State Y limited liability company that is treated as a partnership for federal income tax purposes. From Date 1 until Date 2, all the interests of LLC 1 were held by the S Corporations. On Date 2, LLC 2, another State Y limited liability company, became a fifth member of LLC 1.

On Date 3 (a date within the past 5 years), the shareholders of the S Corporations contributed the stock of Corp E to the S Corporations. The taxpayers state that these contributions qualified for nonrecognition of gain or loss under § 351 of the Internal Revenue Code. Immediately after the above contributions, the S Corporations contributed the stock of Corp E to LLC 1. The taxpayers state that these contributions qualified for nonrecognition of gain or loss under § 721. As of Date 3, the basis of Corp E stock was approximately \$a.

Between Date 3 and Date 4, LLC 1 contributed approximately \$b in cash capital contributions to Corp E to finance operating deficits of Corp E.

On Date 4, LLC 1 distributed the Corp E stock to the S Corporations. As of Date 4, the total basis of Corp E stock was \$c. Each of the S Corporations represent that it

had sufficient basis in its membership interest in LLC 1 so that the basis limitation contained in § 732(a)(2) was not applicable to the distribution of Corp E stock to each S Corporation.

### **Proposed Transactions**

The taxpayers now propose to liquidate the S Corporations in liquidations within the meaning of § 331 and § 336. Each of the S Corporations will distribute their assets (including the LLC 1 interests and the Corp E stock) to their trust shareholders and dissolve.

### **Ruling**

Based solely on the information submitted, we hold that the losses (if any) to the S Corporations on their liquidating distributions of the interests in LLC 1 will be disallowed under § 336(d)(1)(A)(ii) only if, and to the extent that, the total losses (if any) to the S Corporations on the liquidating distributions of the Corp E stock that was realized but disallowed under § 336(d)(1)(A)(ii) was less than a, the basis of the Corp E stock on Date 3.

### **Caveats**

We express no opinion concerning the federal tax consequences of the proposed transactions under any other provision of the Code or regulations, or concerning any conditions existing at the time of, or effects resulting from, the proposed transactions that are not specifically covered by the above ruling. In particular, we express no opinion on the amount of the loss (if any) recognized by any of the S Corporations on their liquidations. We also express no opinion on the operation of any partnership or S corporation provisions of the Code.

### **Procedural Statements**

This letter ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Each taxpayer involved in the transaction should attach a copy of this ruling letter to the taxpayer's federal income tax return for the taxable year in which the transaction covered by this letter is completed. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this ruling letter.

Pursuant to a power of attorney on file with this office, a copy of this letter will be sent to two of your authorized representatives.

Sincerely yours,

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Mark Weiss  
Assistant to the Chief, Branch 1  
Office of Associate Chief Counsel  
(Corporate)